REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

Fiscal Year Ended June 30, 2000

EDWARD B. HATCHETT, JR.
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary, Finance and Administration Cabinet
Gene Wilhoit, Commissioner, Department of Education
Robert S. Sherman, Director, Legislative Research Commission
Stan Riggs, Executive Director, Kentucky Educational Development Corporation
Board of Directors of the Kentucky Educational Development Corporation

The enclosed report prepared by Michelle K. Carpenter, Certified Public Accountant, presents the financial statements of the Kentucky Educational Development Corporation, Ashland, Kentucky, as of June 30, 2000.

We engaged Michelle, K. Carpenter, CPA, to perform the financial audit of this educational cooperative. We worked closely with the firm during our report review process; Michelle, K. Carpenter, CPA, evaluated the Kentucky Educational Development Corporation's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

EXECUTIVE SUMMARY

The audit of the Kentucky Educational Development Corporation for the year ended June 30, 2000 resulted in an unqualified opinion on the cooperative's financial statement. Michelle Carpenter, CPA, performed the audit in conjunction with the Auditor of Public Accounts.

The audit's thirteen findings, synopsized by the Auditor of Public Accounts, are as follows:

- Personal expenses of employees, superintendents, and spouses were frequently charged to cooperative credit cards.
- (REPEATED FROM 1999 AUDIT) Arbitrary markups on resale products and excessive "handling" fees were charged cooperative members.
- Some members of the cooperative were given preferential membership rates.
- Cooperative travel policy allows duplicate reimbursement of expenditures.
- Many cooperative credit card purchases were not supported by adequate documentation.
- Inadequate documentation exists on the sale of two cooperative-owned vehicles.
- (REPEATED FROM 1999 AUDIT) Travel expenses of school employees paid by the cooperative were not adequately justified, making it impossible to ascertain whether the expenditure was reasonable and necessary.
- Invoices were generated for incomplete work, causing an overstatement of cooperative revenues, receivables, and departmental incentive bonuses.
- One employment contract was not in cooperative files.
- Incomplete, facsimile cooperative purchase orders were used to allow school districts to purchase supplies from Sam's Club.
- (REPEATED FROM 1999 AUDIT) Cooperative fixed assets were not tagged.
- Some cooperative purchase orders were not complete.
- Some cooperative expenditures for the Adult Education program were coded to inappropriate expense accounts.

These findings, related recommendations, and management's responses to the findings are located on pages 18-24. A management letter also accompanied the audit report. Recommendations for strengthening internal control and operating efficiency are outlined on page 33 of the report.

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KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS AND OTHER SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2000

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kentucky Educational Development Corporation

I have audited the accompanying general purpose financial statements of Kentucky Educational Development Corporation, as of and for the year ended June 30, 2000, as listed in the table of contents. These general purpose financial statements are the responsibility of Kentucky Educational Development Corporation's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Educational Development Corporation, as of June 30, 2000, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, I have also issued a report dated May 1, 2001 on my consideration of Kentucky Educational Development Corporation's internal control over financial reporting and my test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements of Kentucky Educational Development Corporation. Such information has been subjected to the audit procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Michelle K. Carpenter, CPA

May 1, 2001

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2000

	Governmental Fund Types		
	General Fund	Special Revenue Fund	Debt Service Fund
ASSETS:			
Cash and short-term investments (Note 3)	$ 799,892	$ 364,789	$ 31,626
Receivables-			
Accounts Receivable	491,468	269,345	-
Accrued interest receivable	-	35,739	-
Fixed assets (Note 4)	-	-	-
Amount to be provided for unpaid sick leave	-	-	-
Amount to be provided for debt retirement	-	-	-
Total Assets	$ 1,291,360	$ 669,873	$ 31,626
LIABILITIES:			
Accounts payable	$ 120,604	$ 140,407	$ -
Deferred revenue	196,135	529,466	-
Accrued liabilities	9,296	-	-
Debt Obligations (Note 6)	-	-	-
Total Liabilities	326,035	669,873	-
COMMITMENTS AND CONTINGENCIES (Note 10)			
FUND EQUITY:			
Investment in General Fixed Assets (Note 4)	-	-	-
Fund Balance-			
Unrestricted fund balance	920,732	-	-
Restricted fund balance (Note 6)	44,593	-	31,626
Total Fund Equity	965,325	-	31,626
Total Liabilities and Fund Equity	$ 1,291,360	$ 669,873	$ 31,626

Fiduciary Fund Type	Account Groups		Totals (Memo Only) Reporting Entity
Agency Fund	General Fixed Assets	General Long Term Debt	
$ 7,199,537	$ -	$ -	$ 8,395,844
-	-	-	760,813
-	-	-	35,739
-	847,333	-	847,333
-	-	1,390	1,390
-	-	205,000	205,000
$ 7,199,537	$ 847,333	$ 206,390	$ 10,246,119
$ 7,199,537	$ -	$ -	$ 7,460,548
-	-	-	725,601
-	-	-	9,296
-	-	206,390	206,390
7,199,537	-	206,390	8,401,835
-	847,333	-	847,333
-	-	-	920,732
-	-	-	76,219
-	847,333	-	1,844,284
$ 7,199,537	$ 847,333	$ 206,390	$ 10,246,119

The accompanying notes to financial statements
Are an integral part of this statement

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2000

	General Fund	Special Revenue Fund	Debt Service Fund	Totals (Memo Only)
REVENUES:				
Federal, State and other grants	$ -	$ 1,815,614	$ -	$ 1,815,614
Local and other	3,525,474	635,070	-	4,160,544
Interest income	98,245	-	1,576	99,853
Total Revenues	3,623,719	2,450,684	1,576	6,076,011
EXPENDITURES:				
Personnel and fringe benefits	1,226,215	1,088,119	-	2,314,334
Professional and technical services	11,955	435,919	-	447,874
Repairs and maintenance	27,501	20,997	-	48,498
Utilities	17,790	4,085	-	21,875
Other purchased services	276,170	429,011	-	705,181
Supplies and materials	1,364,430	230,705	-	1,595,135
Debt service	-	-	27,360	27,360
Fixed assets	150,866	83,844	-	234,710
Miscellaneous	46,398	174,728	-	221,126
Total Expenditures	3,121,325	2,467,408	27,360	5,616,093
EXCESS OF REVENUES OVER EXPENDITURES	502,394	(16,724)	(25,784)	459,918
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	16,724	25,985	42,709
Operating transfers out	(42,709)	-	-	(42,709)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	459,685	-	201	459,918
FUND BALANCE - Beginning of year	505,640	-	31,425	537,065
FUND BALANCE - End of year	$ 965,325	$ -	$ 31,626	$ 996,983

The accompanying notes to financial statements are an integral part of this statement

(1) GENERAL STATEMENT

Kentucky Educational Development Corporation (KEDC), was established in 1969 as a non-profit corporation exempt under Section 501(c)(3) of the Internal Revenue Code of 1954. In July, 1978, the Corporation entered into an interlocal cooperation agreement under KRS 65.160 whereby it was deemed mutually advantageous for KEDC to provide certain services, programs and/or facilities to all member school districts.

Currently, KEDC has a membership of seventy-two school districts and the Board of Directors is comprised of Superintendents of member school districts.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of KEDC relating to the funds and account groups included in the accompanying combined financial statements conform to generally accepted accounting principles (GAAP) applicable to state and local governments.

The following significant accounting policies were applied in the preparation of the accompanying financial statements.

Reporting Entity

The Corporation receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the Corporation is not included in any other government "reporting entity" as defined by the GASB pronouncement, since Board members have decision making authority, the power to designate management, the ability to significantly influence operation and primary accountability for fiscal matters.

The financial statements of the Corporation do include those of separately administered organizations that are controlled by or dependent on the Corporation. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing Board. Based on the following criteria, the financial statements of the following organization is included in the accompanying financial statements.

Kentucky Educational Development Finance Corporation

On June 22, 1994 the Kentucky Educational Development Corporation resolved to authorize the establishment of the Kentucky Educational Development Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under KRS 273) as an agency and instrumentality of KEDC in financing the cost of refinancing the acquisition construction of extensions, additions and improvements to the central office headquarters located in Ashland, Kentucky. Board members from KEDC also comprise the Finance Corporation's Board of Directors.

Basis for Presentation - Fund Accounting

The accounts of the Corporation are organized on the basis of funds or account groups, each of which is considered a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures or expenses as appropriate. The various funds are summarized by type in the financial statements. The following fund types and account groups are used by the Corporation.

Governmental Fund Types

General Fund - The general operating fund accounts for all financial resources of KEDC that are not required to be accounted for in the special revenue funds.

Special Revenue Funds - Account for the proceeds of specific revenue sources, the expenditures for which are legally restricted for purposes specified in the grant agreements.

Debt Service Fund - Accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Fiduciary Fund Type

Agency Fund - Accounts for the assets held by KEDC for other entities. Agency funds are custodial funds whereas assets and liabilities are equivalent, therefore, they do not involve measurement of operations.

Account Groups

Account groups are used to establish accounting control and accountability for KEDC's general fixed assets and general long-term debt. The following are KEDC's account groups:

General Fixed Assets Account Group - Fixed assets purchased by governmental fund types (general fixed assets) are accounted for in the General Fixed Assets Account Group rather than in governmental funds.

General Long-Term Debt Account Group - This account group is established to account for all general long-term debt of KEDC and for those long-term liabilities to be liquidated with resources to be provided in future periods.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The governmental fund types use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Even though the Fiduciary

Fund Type (Agency Fund) does not involve the measurement of operations, the modified accrual basis of accounting is followed for recognizing assets and liabilities. Their revenues are recognized when susceptible to accrual (when they become measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, if measurable.

The various sources of revenue are grants, member dues, service related, and other revenues are further discussed below:

Federal and State Grant Revenue

Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in retroactive adjustment in subsequent periods.

Member District Dues

All member districts are required to pay dues to KEDC. Dues are determined annually and are recognized as revenues when assessed because they are measurable and collectible within the current period.

Other Revenues

Other revenues are composed primarily of interest, sales, charges for services, and miscellaneous charges. Interest income, sales and charges for services are recorded as earned since it is measurable and available. Miscellaneous charges are recorded as revenues when received because they are generally not measurable until actually received.

Budgets and Budgetary Accounting

KEDC's annual budget is a management tool that assists its users in analyzing financial activity. KEDC's primary funding sources are federal, state, and local grants which have grant periods that may or may not coincide with KEDC's fiscal year. These grants normally are for a twelve-month period; however, they can be awarded for periods shorter or longer than twelve months.

Because of KEDC's dependency on federal, state, and local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding. KEDC's annual budget differs from that of a local government in two respects; (1) the uncertain nature of grant awards from other entities and (2) conversion of grant budgets to a fiscal year basis.

The resultant annual budget is subject to constant change within the fiscal year due to:

a. Increases/decreases in actual grant awards from those estimated;
b. Changes in grant periods;

c. Unanticipated grant awards not included in the budget; and
d. Expected grant awards which fail to materialize.

The Board of Directors formally approves the annual budget but greater emphasis is placed on complying with the grant budget terms and conditions on a grant-by-grant basis. These terms and conditions usually specify the period during which costs may be incurred and outline budget restrictions or allowances.

State Administered Grants

State Administered Grants are federal grant funds, appropriated state funds, or a combination of the two, which are allocated to state agencies then reallocated to local units of government.

Operating Transfers

Operating Transfers are the distribution of local cash resources to grant projects requiring local cash match in accordance with the terms and conditions of the grant contract. In addition local funds are used for expenditures in excess of grant proceeds awarded.

General Fixed Assets

Fixed Assets are recorded at historical cost. In accordance with generally accepted accounting principles, no provision is made for depreciation of such assets in the General Fixed Assets Account Group.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Total Columns on Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. No consolidating entries or other eliminations were made in the aggregation of the totals; thus, they do not present consolidated information and do no purport to present financial position, results of operation, or cash flows in conformity with generally accepted accounting principles.

(3) CASH AND INVESTMENTS

The Corporation's deposits and investments at June 30, 2000 were covered by federal depository insurance or investments of U.S. Treasury Obligations or other Government Agencies. Kentucky Revised Statutes authorize local governmental entities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and it agencies, shares in savings and loan associations insured by federal agencies and deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

KEDC invests in the Kentucky Class Portfolio administered by MBIA Municipal Investors Service Corporation. These approved investments are carried at cost, which approximates market and may be liquidated as needed. These investment pools have not been assigned a risk category since KEDC is not issued securities, but rather owns an undivided beneficial interest in the assets of these pools. Due to the short-term nature of the Portfolio's assets and liabilities, the carrying value as recorded in the balance sheet approximates fair value. Listed below are the balances held in the investment pool at June 30, 2000:

	General Fund	Agency Fund	Totals
General Fund	$1,409,938	$ -	$1,409,938
American Fidelity Flex	-	6,431,575	6,431,575
	$1,409,938	$6,431,575	$7,841,513

(4) FIXED ASSETS

A summary of changes in general fixed assets for the year ended June 30, 2000, follows:

	Land and Buildings	Equipment	Vehicles	Totals
Balance, June 30, 1999	$ 237,376	$ 185,478	$ 252,278	$ 675,132
Additions	6,063	147,251	49,620	202,934
Deletions	-	-	(30,733)	(30,733)
Balance, June 30, 2000	$ 243,439	$ 332,729	$ 271,165	$ 847,333

(5) BONDED DEBT AND LEASE OBLIGATION

In October 1994, Kentucky Educational Development Corporation entered into a lease/option contract with Kentucky Educational Finance Corporation to make semi-annual payments equal to the principal and interest requirements of its 1994 issue of First Mortgage Revenue Bonds totaling $275,000 and bearing interest rates of 5.6% to 6.0%. The purpose of this issue was to provide funds to retire a mortgage note held by KEDC with First and Peoples Bank and Trust Company of Russell, Kentucky, for the purchase of land and building currently occupied by KEDC. Changes in bonds payable for the year ended June 30, 2000 are outlined below:

Balance outstanding at June 30, 1999	$ 220,000
Bonds retired during current year	(15,000)
Balance outstanding at June 30, 2000	$ 205,000

The bonds have been prepared as two fully registered Term Bonds maturing October 1, 2004, and October 1, 2009. The minimum obligations of KEDC at June 30, 2000 for debt service (principal and interest) are as follows:

Year Ended June 30,	Principal	Interest	Total Requirements for Year
2001	$ 15,000	$ 11,520	$ 26,520
2002	15,000	10,680	25,680
2003	20,000	9,700	29,700
2004	20,000	8,580	28,580
2005	20,000	7,460	27,460
2006	20,000	6,300	26,300
2007	20,000	5,100	25,100
2008	25,000	3,750	28,750
2009	25,000	2,250	27,250
2010	25,000	750	25,750
	$ 205,000	$ 66,090	$ 271,090

(6) ACCUMULATED UPAID SICK LEAVE BENEFITS

Upon retirement from KEDC, an employee will receive from the Corporation an amount equal to 10% of the value of accumulated sick leave. At June 30, 2000, one employee was eligible for retirement and thus, a liability of $1,390 was recorded for accumulated sick leave. Also, beginning in 1997, KEDC implemented a policy of funding a percentage of total wages paid for accumulated sick leave benefits as reservation of the General Fund balance. The total reserved at June 30, 2000 was $44,593.

(7) RETIREMENT PLANS

A. Kentucky Teachers Retirement System

Certified employees are covered under the Kentucky Teachers Retirement System (KTRS). KTRS, a cost sharing, multiple-employer, public employee retirement system, provides retirement benefits based on an employee's final average salary and number of years of service. The Kentucky Teachers Retirement System issues a publicly available financial report that includes financial statements and required disclosure information. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3868 or by calling (502) 573-5120.

Funding for the plan is provided by contributions from eligible employees and employers (or state) at a rate of 9.855% of salaries. During the year ended June 30, 2000, the Corporation contributed $8,300 and employees contributed $106,123 to the Plan.

B. County Employee's Retirement System

The Corporation contributes to the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. It covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

The CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646.

Plan members are required to contribute 5% of their annual creditable compensation, and the Corporation is required to contribute 7.28% of the employee's total compensation. The contribution requirements of CERS members and the Corporation are established and may be amended by the CERS Board of Trustees. The Corporation's contributions to CERS for the year ending June 30, 2000 were $67,385 while employees contributed $46,281.

KEDC is only one of several employers participating in these Plans. Therefore, it is not practicable to determine KEDC's portion of the unfunded past service cost or the vested benefits of KEDC's portion of Plan assets.

(8) RISK MANAGEMENT

KEDC is exposed to various risks of loss related to the theft of, damage to and destruction of assets; errors and omissions, fiduciary responsibilities and natural disasters for which it carries commercial insurance. There have been no significant reductions in coverage from the prior year and there have been no significant settlements in the past two years.

(9) INCOME TAX STATUS

The Corporation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1954; accordingly the accompanying financial statements include no provision for such taxes.

(10) COMMITMENTS AND CONTINGENCIES

Grant Programs

The Corporation participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grants programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Corporation has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2000 may be impaired. In the opinion of the Corporation, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Kentucky Department of Education Agency Funds

Included within the Agency Fund are Kentucky Department of Education (KDE) projects that were subject to an embezzlement investigation by the Kentucky Auditor of Public Accounts. These projects were frozen, prohibiting further expenditures effective

January 2000. Upon conclusion of the investigation and subsequent to year-end, KDE requested a refund of all agency funds on hand at KEDC totaling $704,201. However, KEDC's General Fund retained all administrative fees and interest earned on frozen projects.

KENTUCKY EDUCAITONAL DEVELOPMENT CORPORATION
SCHEDULE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000

FEDERAL GRANTOR/PASS THOUGH GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTOR NUMBER	EXPENDITURES
U.S. DEPARTMENT OF EDUCATION			
Passed through Kentucky Department of Adult Education and Literacy			
*Adult Education	84.002	DAEL 2000-015	$ 568,093
*Project Life	84.002	TANF 2000-139	101,891
*Lawrence County Works	84.002	TANF 2000-131	89,593
Passed through Kentucky Department of Education			
IDEA, Part B	84.027	0581-99-02	660
IDEA, Part B	84.027	0581-99-02	2,589
IDEA, Part B	84.027	0581-99-04	403,787
IDEA, Part B	84.027	0581-99-04	57,790
Goals 2000	84.276	0733-99-02	71,970
Passed through Kentucky Cabinet for Workforce Development			
School to Work LMA#19	84.278	0820-99-00	45,527
School to Work LMA#21	84.278	9921-08	31,750
Total Department of Education			1,373,650
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,373,650

*Denotes Major Programs

NOTE A: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Kentucky Educational Development Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Kentucky Educational Development Corporation

I have audited the general purpose financial statements of Kentucky Educational Development Corporation, as of and for the year ended June 30, 2000, and have issued my report thereon dated May 1, 2001. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Kentucky Educational Development Corporation's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in Part C of the accompanying schedule of findings and questioned costs.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Kentucky Educational Development Corporation's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Kentucky Educational Development Corporation's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in Part B of the accompanying schedule of findings and questioned costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe none of the reportable conditions described above is a material weakness. I also noted other matters involving internal control over financial reporting that I have reported to the management of KEDC in a separate letter dated May 1, 2001.

This report is intended for the information of the board of directors, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Michelle K. Carpenter, CPA

May 1, 2001

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Kentucky Educational Development Corporation

Compliance

I have audited the compliance of Kentucky Educational Development Corporation, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. Kentucky Educational Development Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kentucky Educational Development Corporation's management. My responsibility is to express an opinion on Kentucky Educational Development Corporation's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the *Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kentucky Educational Development Corporation's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Kentucky Educational Development Corporation's compliance with those requirements.

In my opinion, Kentucky Educational Development Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in Part C of the accompanying schedule of findings and questioned costs.

Internal Control Over Compliance

The management of Kentucky Educational Development Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Kentucky Educational Development Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the Kentucky Educational Development Corporation's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I considered to be material weaknesses.

This report is intended for the information and use of the audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Michelle K. Carpenter, CPA

May 1, 2001

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of Kentucky Educational Development Corporation.

2. Reportable conditions were noted during the audit of the general purpose financial statements and are reported in Part B of this schedule. None of the conditions listed below are material weaknesses.

3. No instances of noncompliance material to the general purpose financial statements of Kentucky Educational Development Corporation were disclosed during the audit.

4. Reportable conditions relating to the audit of major federal award programs are reported in Part C of this schedule. The conditions are not reported as material weaknesses.

5. The auditor's report on compliance for the major federal award programs for Kentucky Educational Development Corporation expresses an unqualified opinion.

6. Audit findings relative to the major federal award programs for Kentucky Educational Development Corporation are reported in Part C of this schedule.

7. The programs tested as major programs included:

CFDA No.	Program Title
84.002	Adult Education

8. The threshold for distinguishing Types A and B programs was $300,000.

B. FINDINGS-FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITIONS

00-01 Fixed Asset Activity

Condition: Adequate documentation was not on file to determine the amount of consideration received for two fleet vehicles removed from service during the year. Upon inquiry, management obtained a statement from a car dealership indicating the vehicles in question were traded-in on a new car purchase.

Criteria: All additions and disposals of fixed assets should be properly documented and recorded in the appropriate funds.

Effect: Absence of such information resulted in an incomplete audit trail of fixed asset activity.

Recommendation: Management should retain all pertinent documents on file to support fixed asset activity. All such documents should be used to ensure that fixed asset records are updated with complete and accurate information.

Response: We concur with the recommendation and will obtain proper documentation of all future fixed asset purchases and disposals.

00-02 Accounts Receivable

Condition: Invoices for incomplete wiring jobs of approximately $50,000 were generated at June 30, 2000 to ensure inclusion in year-end revenues, accounts receivable, and departmental incentive bonuses. These invoices were voided subsequent to year-end and reissued in different amounts on September 30, 2000. KEDC received payment approximately five months after year-end.

Criteria: Governmental funds are required to record receivables when measurable and available. Typical collections of sixty days subsequent to year- end are deemed “available”.

Effect: Year-end receivables and revenues for the department were overstated which also resulted in greater departmental incentive bonuses for employees.

Recommendation: Billings should only be generated for work completed. In addition, billings should be prepared on a timely basis to ensure proper matching of revenues and expenditures.

Response: We concur with the recommendation and will make efforts to ensure future billings only reflect work performed.

00-03 Membership Fees

Condition: KEDC assesses membership fees to its districts based upon fixed rates per district size. However, while testing membership fees, it was noted that KEDC accepted the memberships of other educational cooperative’s members at discounted rates.

Criteria: Memberships fees should be assessed using identical criteria for all applying districts.

Effect: Inconsistency in billing practices fosters discriminatory actions as well as limits the amount of membership revenues earned by the Cooperative.

Recommendation: KEDC should charge membership fees consistently to all applying district based upon a standardized fee schedule.

Response: We agree with the recommendation and will bill accordingly for 2001-2002 memberships. Non-member districts utilizing KEDC services shall be charged an additional 20% to cover indirect costs.

00-04 Sales Invoice Pricing

Condition: During our testing of a sample of sales invoices and corresponding sales orders, it was noted that different methodologies were used in determining the prices charged for resale items. Markups on resale items ranged from 12% to 130% for the test sample. The largest markups appeared to relate to the sales of computer accessories, which are of smaller dollar values. In addition "handling" fees of three, five, or ten dollars were arbitrarily charged per item.

Criteria: Good internal controls would dictate for procedures to be in place to ensure proper controls over billing and revenues cycles and thus, ensure the completeness and accuracy of revenues reported.

Effect: Non-standardized billing practices not only could be deemed discriminatory, but also affects profit margins related bonuses paid to department heads. In addition, due to the inconsistency of mark ups used, the reasonableness of revenues could not be calculated based upon the cost of merchandise purchased for resale.

Recommendation: KEDC should develop a standardized price list or mark up that fairly and equitably offers products to members for purchase. Development of standardized rates would also enable management to test revenues for completeness based upon the cost of merchandise purchased for resale.

Response: KEDC has devised a new pricing methodology whereby all merchandise will be stated at cost with a separate line item charged for administration. This billing procedure, which ensures members are aware of KEDC's cost, was approved at the February 21, 2001 Board Meeting.

00-05 Personal Credit Card Purchases

Condition: The audit revealed that personal expenses of employees, superintendents, and spouses were frequently charged to company credit cards. These expenses were then subsequently reimbursed to KEDC.

Criteria: Credit cards should only be used for business related expenses to avoid encumbering the card's line of credit and to ensure that only expenditures incurred by employees for business related purposes are paid by the organization.

Effect: Controls over purchasing are weakened by this process and increases the likelihood of the organization incurring unnecessary expenses. In addition, KEDC must use its own cash flows to cover costs until reimbursed by appropriate individuals.

Recommendation: KEDC should devise a purchasing policy prohibiting staff from making personal purchases on the company's account.

Response: Procedures were implemented in February 2001 to prohibit such purchasing arrangements in the future.

00-06 Documentation for Credit Card Purchases

Condition: Several instances were noted where documentation to support credit card purchases was not attached to month-end credit card statements. This appeared to be particularly predominant for online (internet) and gasoline purchases.

Criteria: Good accounting practices would dictate that such receipts be retained to ensure that amounts charged by employees are valid business related expenditures.

Effect: Specific items purchased with the credit card could not be determined, nor could the specific purchaser be identified.

Recommendation: Itemized receipts should be required for all credit card purchases. Specifically, this would include printing the order screens or order confirmations from online vendors as well as enforcing the requirement for employees to turn in gasoline credit card receipts.

Response: We concur and have instructed employees of the documentation necessary for credit card purchases. In addition, we now request gasoline credit card receipts on a weekly basis to minimize the number of receipts misplaced by employees at month-end.

00-07 Employee Travel Expenses

Condition: Currently, KEDC policy dictates that employees have the option of submitting actual meal receipts for reimbursement or requesting five-dollar meal per diems while on company business. However, an instance was noted where this policy enabled two employees to duplicate expenses. One employee was reimbursed for two meals purchased on one receipt while the other employee received a meal per diem. Furthermore, in an unrelated incident, another employee was reimbursed without providing adequate documentation of travel expenses incurred.

Criteria: Policies and procedures should be adequate to limit the likelihood of the organization duplicating the payment of employee expenses or remitting unsubstantiated employee expenses.

Recommendation: Management should review its current travel related policies to determine the need for revisions. Also, accounting procedures should be developed to ensure that employee expense reports are closely scrutinized to negate the possibility of duplicated or unsubstantiated expenses being paid in the future.

Response: We concur and will review our current policies and procedures and revise as deemed necessary.

00-08 Employment Contract

Condition: During the test of payroll transactions, an employment contract for an instructor could not be located to verify the terms of employment.

Criteria: Good controls over payroll would require the presentation of employment contracts to accounting personnel for verification of pay rates and applicable fringe benefits.

Effect: No documentation was available to verify employee pay rate.

Recommendation: Management should require employment contracts to be on file before new pay rates are input into the computerized payroll system.

Response: A written statement was obtained from the employee to verify the terms of the fiscal year 2000 contract for the auditor. We concur and the recommendation will be implemented immediately.

00-09 Sam’s Club Credit Purchases

Condition: Currently, KEDC allows school districts to purchase supplies from Sam’s Club on its account, which is subsequently billed back to the district. This process is initiated by KEDC faxing a partially completed purchase order along with a copy of a KEDC Sam’s Club membership card to the requesting school district personnel.

Criteria: Good internal control procedures would dictate only the use of original purchase orders and that all such purchase orders must be completely filled out before issuance to purchasers.

Effect: Controls over purchases made on the account of KEDC are weakened. Also, opportunity is given for purchase orders to be copied and used by school district personnel for unauthorized purchases.

Recommendation: Management should review this practice and the liability KEDC assumes for such purchases. If deemed necessary, management should at a minimum, require the use of properly completed original purchase orders for any Sam’s Club purchases made by school districts. If such practices are to continue in the future, management should also consider having KEDC staff purchase the desired goods to ensure adequate control over the purchasing procedure.

Response:	We will review our current practices to determine what cost effective measures can be taken in providing this service to school districts.

00-10 Fixed Asset Records

Condition:	Upon physical observation, it was determined that fixed assets were not tagged.
Criteria:	All assets should be affixed with tags in order to be appropriately identified as the property of KEDC.
Effect:	The potential exists for the fixed assets of KEDC to be lost or stolen without proper identification.
Recommendation:	Identification tags should be affixed to all capital assets and cross-referenced to a detail inventory listing. The listing will enable management to determine the physical location of the asset as well as determine the original source of funding. Newly purchased fixed assets should be immediately tagged and added to inventory.
Response:	We agree with the recommendation and will begin implementation when bar coding equipment is installed following the release of Munis 2001.

00-11 Superintendent Travel

Condition:	KEDC holds funds earmarked by school districts for superintendent travel expenses. Superintendents then submit requests for reimbursement to KEDC's accounting office for expenses incurred while attending conferences. While reviewing a sample of invoices from these accounts, an instance was noted where a school district employee was reimbursed for tours taken while attending a conference. The employee deemed the tours to be for educational purposes, but no documentation was attached to the receipt to support this assertion.
Criteria:	KEDC policy indicates that only business related travel expenses should be reimbursed.
Effect:	KEDC overpaid the travel reimbursement for the portion deemed to be personal expenses of the school district employee.
Recommendation:	KEDC should reconsider its practice of reimbursing travel expenses for school districts. At a minimum, any such reimbursements should be subject to the same scrutiny as KEDC employee travel expenses. Receipts should be closely reviewed to ensure that reimbursements reflect only business or conference related expenses.

Response: KEDC discontinued reimbursing superintendent travel near the end of the fiscal year with all remaining balances returned to the school districts.

00-12 Purchase Orders

Condition: During the test of disbursements, two instances were noted where purchase orders attached to cancelled invoices were incomplete. One purchase order lacked a signature of approval while the other purchase order omitted general ledger account codings.

Criteria: All purchase orders must be completely and accurately prepared to provide necessary controls over disbursements.

Effect: Controls over disbursements and their effective coding to general ledger accounts were compromised.

Recommendation: All purchase order should be carefully reviewed for completeness before approving purchases. Additionally, purchase orders and their corresponding invoices should be coded to general ledger accounts before packets are processed for payment.

Response: We agree with the recommendation and will review purchase orders more carefully in the future.

00-13 General Ledger Account Coding

Condition: While testing Adult Education invoices it was noted that some invoices paid in June 2000 were coded to inappropriate expense accounts. According to program coordinators, this was done to "use up" unexpended dollars for needed items whose budget line item was exhausted for the year.

Criteria: Invoices should be coded to general ledger accounts to reflect the nature of the expenditure to ensure reports provide complete and accurate financial information.

Effect: Control over disbursements and effectiveness of coding to general ledger accounts was compromised. Also, this practice limits the usefulness of reports for management and budgetary purposes.

Recommendation: All invoices should be coded to appropriate general ledger accounts based upon items purchased rather than accounts with available budgets. This process will provide better reports for management and budgeting tools.

Response: We agree with the recommendation and have instructed grant coordinators to code invoices based upon items purchased.

C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS

		Questioned Costs
U.S. DEPARTMENT OF EDUCATION		
ADULT EDUCAITON, CFDA NO. 84.002		
1. Reportable Conditions:	As fully discussed in Part B, the following reportable conditions related to the Adult Education program as well:	
00-10		
00-13		
Total Department of Education		$ -

KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000

99-1 Condition:	1099 information for independent contractors was obtained from time sheets rather than requesting IRS W-9 forms.
Current Status:	Effective January 2000, completed W-9 forms must be on file with the accounting department before payments will be rendered to individual contractors.
99-2 Condition:	Instances were noted where payments to individuals contracted to provide services for the Kentucky Department of Education were not mailed to the addressed individuals.
Current Status:	Effective January 2000, all checks are distributed or mailed directly to the payee.
99-3 Condition:	Memorandums of agreement were not obtained for all monies received from federal and state sources to ensure that management is aware of KEDC's rights and responsibilities in administering those funds.
Current Status:	Memorandums of agreement or contracts for all program and service type activities are obtained and presented to the Board of Directors for approval.
99-4 Condition:	Signature stamps are used to satisfy the dual signature requirement for checks written.
Current Status:	Policy was changed late in year 2000 to require at least one original authorized signature on all checks written. However, if the disbursement is emergent and no authorized signers are present, checks may be stamped upon verbal approval from that authorized signer. The Business Manager and the Executive Director now review and sign all cash disbursement journals to document his approval of all checks written. The Business Manager reviews all payroll reports while the Executive Director reviews and signs all payroll reports. Furthermore, the Executive Director examines all cancelled checks returned with the monthly bank statements.
99-5 Condition:	Checks received by KEDC were not stamped "for deposit only" by the receptionist while opening and logging all incoming mail.
Current Status:	This receptionist began stamping checks “for deposit only” during the fiscal year 2000.
99-6 Condition:	No documentation was on hand to verify the transfer of direct deposit payrolls to authorized employee bank accounts.

Current Status: The client has been requesting transfer logs from the bank each pay period since requested by the auditor in October 1999.

99-7 Condition: The test of sales revealed that reports generated from billings were not retained, which impaired efforts to trace activity to the general ledger.

Current Status: All billing cycle reports were retained for the fiscal year ending June 30, 2000.

99-8 Condition: Instances were noted where refreshment purchases for board meetings were only documented with a purchase order. In addition, the appropriateness of refreshment purchasing policies was questioned.

Current Status: Effective July 1, 2000 procedures were implemented to ensure that all purchases are adequately documented with invoices. In addition, KEDC no longer acts as the purchaser of adult beverages from money contributed by individuals for meeting refreshments.

99-9 Condition: Itemized receipts for employee travel expenses were not attached to credit card statements.

Current Status: Policy was changed to require employees to obtain itemized receipts from vendors for all purchases. In addition, for multiple meals purchased on one ticket, employees are now required to write the names of the individuals served on the ticket.

99-10 Condition: Employee expense reports should be reviewed to ensure that reimbursements do not include expenses incurred by family members traveling with employees.

Current Status: Reports during fiscal year 2000 contained family member expenses, which were subtracted from totals reimbursed. However, effective July 1, 2000, staff members were instructed to request family members to pay separately. In addition, management now requires employees to obtain itemized receipts for all expenses, which enables the accounting department to determine the number of meals served to ensure reimbursements are accurate.

99-11 Condition: Difficulty was noted in recalculating amounts charged for goods sold and their related shipping charges based upon price lists and invoices provided by management.

Current Status: Inconsistencies in markups and shipping charges still existed in fiscal year 2000. However, a new pricing methodology was established whereby all merchandise will be stated on the invoice at cost with a separate line item charge for administration. This procedure, which was approved at the February 21, 2001, will ensure that members are aware of KEDC's cost.

99-12 Condition:	Fixed assets are not affixed with identification tags to appropriately identify assets as the property of KEDC.
Current Status:	No fixed assets have been tagged at this time. Management is installing bar coding equipment and will begin implementation with the bar coding system at a future date.

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KENTUCKY EDUCATIONAL DEVELOPMENT CORPORATION
JUNE 30, 2000 AUDIT FINDINGS
CORRECTIVE ACTION PLAN

May 1, 2001

Kentucky Educational Development Corporation respectfully submits the following corrective action plan for the year ended June 30, 2000. The findings from the schedule of findings and questioned costs presented by our independent auditor, Michelle K. Carpenter, CPA are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

B. FINDINGS-FINANCIAL STATEMENT REPORTABLE CONDITIONS

00-01 Recommendation: Management should retain pertinent documents on file to support fixed asset activity. All such documents should be used to update fixed asset subsidiary records.

Action Taken: We will obtain proper documentation and update subsidiary records for this activity in the future.

00-02 Recommendation: Billings should only be generated for work completed. Also, such billings should be generated in a timely fashion

Action Taken: Billings will not be generated until work is completed. Efforts will be made to ensure that such billings are made on a timely basis to ensure proper matching of revenues and expenditures.

00-03 Recommendation: The Board should consider charging memberships consistently to all applying districts based upon one fee schedule.

Action Taken: All future membership fees (beginning with the fiscal year 2001-2002) will be charged based upon one fee schedule for all applying districts. Non-member districts utilizing KEDC services shall be charged an additional 20% to cover indirect costs.

00-04 Recommendation: KEDC should develop a standardized price list or markup for items offered to members for purchase.

Action Taken: KEDC has devised a new pricing methodology whereby all merchandise will be stated on the invoice at cost with a separate line item charged for administration. This billing procedure, which ensures members are aware of KEDC's cost, was approved at the February 21, 2001 Board Meeting.

00-05 Recommendation: KEDC should devise a purchasing policy prohibiting staff from making personal purchases on company credit cards.

Action Taken: Policies were implemented in February 2001 to prohibit staff from using such purchasing arrangements in the future.

00-06 Recommendation: Itemized receipts should be required for all credit card purchases.

Action Taken: We have instructed employees of the documentation necessary for credit card purchases. In addition, we are requesting gasoline credit card receipts weekly to minimize the number of lost receipts.

00-07 Recommendation: Management should review current travel related policies and accounting procedures to determine changes needed to negate the possibility of paying employees duplicated or unsubstantiated travel expenses.

Action Taken: We concur with the recommendation and are currently reviewing our travel policies. In addition, accounting procedures now require itemized receipts, which will assist accounting staff in determining duplications.

00-08 Recommendation: Management should require employment contracts to be on file to ensure proper data is available for initial payroll setup.

Action Taken: We now require the signed contract to be on file before the employee is initially set up in the payroll system. This requirement will ensure that all contracts are completed before payroll checks are issued.

00-09 Recommendation: KEDC should review the practice of allowing the company's Sam's Club account to be used for items purchased for schools by school district personnel.

Action Taken: We are reviewing this practice to determine what cost effective measures can be taken in providing this service to schools without compromising internal controls.

00-10 Recommendation: Identification tags should be affixed to all capital assets and cross referenced to a detail inventory listing.

Action Taken: We concur and will be using a bar coding system to implement this recommendation following the release of MUNIS 2001.

00-11 Recommendation: KEDC should reconsider its practice of reimbursing travel expenses for school districts. If deemed prudent, all such reimbursements should be subjected to the same scrutiny as KEDC employee travel expenses.

Action Taken: We discontinued reimbursing superintendent travel near year-end with all remaining balances returned to the school districts.

00-12 Recommendation: Purchase orders should be carefully reviewed for completeness before receiving approval. Additionally, purchase orders and corresponding invoices should be assigned general ledger account codes before they are processed for payment

Action Taken: The recommended procedures are typically performed. However, efforts will be made to ensure such oversights do not occur in the future.

00-13 Recommendation: Expenditures should be coded to appropriate general ledger accounts according to items purchased rather than general ledger accounts with available budgets.

Action Taken: Grant coordinators have been instructed to code future invoices according to items purchased, indicating overspending and underspending that makes the net result of what is reported to grantors.

C. FINDINGS - MAJOR FEDERAL AWARDS

All such findings were related to financial statements reportable conditions and have been adequately addressed in Part B of this corrective action plan.

If the Commonwealth of Kentucky has questions regarding this plan, please contact the undersigned at (606)928-0205.

Sincerely,

Stan Riggs
Executive Director

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To the Board of Directors
Kentucky Educational Development Corporation

In planning and performing the audit of the general purpose financial statements of Kentucky Educational Development Corporation (the Corporation) for the year ended June 30, 2000, I considered the Corporation's internal control to determine my auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on the internal control.

However, during the audit, I became aware of several matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. A separate report dated May 1, 2001, contains my report of internal control over financial reporting which disclosed no internal control related matters which were considered to be material weaknesses. This letter does not affect my report dated May 1, 2001, on the general purpose financial statements of Kentucky Educational Development Corporation.

I will review the status of these comments during my next audit engagement. I have already discussed these comments and suggestions with various personnel of KEDC, and I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Michelle K. Carpenter, CPA

May 1, 2001

OUTSTANDING CHECKS

While reconciling the general checking account, numerous checks were noted as being outstanding for periods in excess of one year. Efforts should be made to research long outstanding checks and reissue or write off as deemed necessary.

DEPOSITS IN TRANSIT

KEDC charges all funds for their share of indirect costs such as vehicles, postage, etc. Checks were cut to "pay" these costs back to KEDC and were appropriately listed as outstanding at year-end. However, a corresponding deposit in transit was not recorded for these checks, which were subsequently deposited back into KEDC's general checking account. Special consideration should be given to month-end transactions to ensure that cash balances are properly stated.

GROSSED UP ACCOUNT ACTIVITY

Currently, KEDC records local transfers from the General Fund to grant programs as expenditures of the General Fund, as well as expenditures of the grant program in the Special Revenue Fund. Therefore, on an entity-wide basis, both revenues and expenditures are overstated by the amount of operating transfers. Additionally, reimbursements to grantors for unexpended grant funds are coded to all accounts with remaining budgets rather than reducing revenues to match actual expenditures. Therefore, project budget reports for grants erroneously appear to be fully expended.

EMPLOYEE EXPENSE REPORTS

During the audit, we noted that one employee accumulated expense reports for a period of six months before submitting for reimbursement. Management should consider setting time limitations for reimbursing employee expenses to ensure that any amounts chargeable to programs are recorded on a timely basis before general ledger closeouts occur.

EMPLOYEES AS INDEPENDENT CONTRACTORS

An employee was paid $599.99 for wiring the KEDC offices "after hours". The employee was treated as an independent contractor for this particular disbursement. Management should review IRS guidelines to determine if individuals qualify as independent contractors. If this individual worked as an employee, this disbursement would have been subject to employment taxes and fringe benefits.

YEAR-END SUPPLY PURCHASES

While vouching disbursements for the Adult Education grant program, it was noted that purchases of envelopes and stamps were made near year-end. Grant agreements require purchases to be used for the current grant year. Therefore, supply type purchases should be limited to only the amount that will be used by year-end.